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HAND DELIVERY

Mary L. Cottrell, Secretary
Department of Telecommunications and Energy
One South Station – 2nd Floor
Boston, MA 02110

Re: Comments on the Department's Investigation on its own Motion into Distributed Generation (Docket Number D.T.E. 02-38)

Dear Secretary Cottrell:

The National Association of Energy Service Companies (NAESCO) submits the following comments in response to the Notice of Inquiry issued by the Department of Telecommunications and Electronics (Department) in the above-referenced case.

NAESCO is a trade association of energy service companies (ESCOs) and their trade allies, including utilities and manufacturing companies. NAESCO's current membership of about 130 organizations includes firms involved in the design, manufacture, financing and installation of energy efficiency equipment and the provision of energy efficiency services in the private and public sectors. NAESCO numbers among its members some of the most prominent companies in the world in the energy control equipment business, including Honeywell, Johnson Controls, ABB, Siemens, TAC Americas and Invensys. Our members also include many of the nation's largest utilities: Pacific Gas & Electric, Southern California Edison, New York Power Authority, and TU Electric & Gas. In addition, ESCO members include affiliates of ConEdison, Exelon, FirstEnergy, Sempra, Northeast Utilities, Equitable Resources, CMS Energy, Reliant, Alliant and Southern Company. Prominent national and regional independent members include Custom Energy, Onsite Energy, PRAXAIR Energy Solutions, Conservation Services Group, Citizens Conservation Corporation, AMERESCO, Emcor, UCONS and Energy Systems Group. ESCOs have been delivering services to large and small customers in Massachusetts for twenty years.

NAESCO believes that the Department should institute a collaborative stakeholder proceeding that considers the multiple public interest issues associated with Distributed Generation (DG) and Distributed Resources (DER). Our comments below are intended to outline the complexity of the issues on which the Department has requested comment, and to note for the Department the level of effort that has been exerted in other states to address these issues.

1. Refer to current distribution company interconnection standards and procedures in Massachusetts. Do these standards and procedures act as a barrier to the installation of distributed generation? If so, please describe.

Current Massachusetts regulations allow distribution utilities (DISCOs) to apply DG interconnection rules, that vary significantly between utilities and between projects, to arbitrarily determine interconnection study costs and procedures, subjectively determine technical risks imposed by DG projects, and unfairly assign risk to developers of DG projects. NAESCO understands and appreciates the obligation of the DISCOs to protect the integrity of the distribution system for the benefit of all ratepayers, but the current procedures go well beyond the activities required for that protection.

1(a). If the current standards and procedures act as barriers to the installation of distribution generation, please describe what steps the Department should take to remove these barriers. As part of this response, please discuss whether the Department should establish uniform technical interconnection standards and procedures for distributed generation.

NAESCO believes the Department should establish uniform technical interconnection standards and procedures. These standards should include:

- Pre-certification of standard DG units and components;
- Exemptions from interconnection studies for DG installations that are *de minimus* to distribution system functioning;
- Uniform interconnection study methodologies, costs and delivery times for DG installations that can be anticipated to have an effect on distribution systems; and
- Ownership-neutral interconnection standards, *i.e.*, the regulations on interconnections should apply equally to DG installations owned and operated by customers as well as installations owned and operated by third parties for the benefit of customers.

1(b) Please comment on whether the Department should adopt the IEEE's uniform technical interconnection standards, or the uniform standards adopted by other states, for use in Massachusetts.

NAESCO recommends that the Department not adopt the referenced IEE standards. Rather, the Department should convene a collaborative technical proceeding involving all stakeholders which will cull the best regulatory approaches from the California, Texas, New York and Delaware experiences, and adopt those approaches as appropriate to Massachusetts.

2. Refer to current distribution company standby service tariffs. Do these tariffs act as a barrier to the installation of distributed generation? If so, please describe.

NAESCO believes that current Massachusetts' DISCO standby tariffs do not pose a barrier to the development of DG. We expect, however, that as the DG industry develops, the Massachusetts DISCOs will request standby rates, as have the DISCOs in other states. NAESCO notes that National Grid has recently concluded a standby rate case involving its New York subsidiary, Niagara Mohawk Power Corporation (New York Public Service Commission Case No. 01-E-1847), in which it strongly advocated the need for standby rates. It goes without saying that the structure of standby rates can make or break the DG industry.

2(a). Please discuss the appropriate method for the calculation of standby or back-up rates associated with the installation of distributed generation. As part of this response, please discuss whether other states have established policies regarding back-up rates associated with distributed generation that may be appropriate for adoption in Massachusetts.

NAESCO believes that an appropriate method for calculating standby rates includes three cost-based components (customer charge, contract or reservation demand, and as-used demand) and one major public policy question – the extent to which DG customers should be liable for DISCO stranded production or power purchase costs.

The three cost-based components are briefly described below.

- **Customer charge:** the cost of establishing and maintaining the account of an individual customer, including metering, billing and customer service costs. The customer charge is usually a standard fixed amount for each customer in a particular rate class.
- **Contract or reservation demand:** the cost of providing the distribution facilities required to serve an individual customer's standby capacity requirements, which can be defined as either the maximum historical non-coincident billed demand of the customer, or some lesser amount of service, if the customer elects less than full standby service. These costs are assessed on a per-kW basis.
- **As-used demand:** the cost of providing the transmission and distribution facilities that are shared by all DISCO customers. These costs are based on coincident peak demand actually used by customers, as measured on a periodic basis – daily, monthly, seasonally, etc. – and are assessed on a per-kW-period basis, *i.e.*, kW-day or kW-month.

Though this method may seem complex, the parties in the above-cited Niagara Mohawk case were able to reach a settlement on this cost structure in about 60 days. The substance of the Niagara Mohawk settlement negotiations, as might be expected, involved non-utility parties seeking to minimize the contract demand charges that they saw as fixed and non-controllable. The result of the settlement negotiations was a significant reduction in the proportion of costs allocated to contract demand from the original DISCO filing to the settlement filing.

Unfortunately, the major public policy question -- the future liability of DG customers for stranded utility production and power purchase contract costs – remained immune to settlement in the above-cited Niagara Mohawk case, and remains elusive in ongoing DG proceedings in California. NAESCO believes that the Department should be prepared for the eventuality that this issue cannot be settled in a collaborative process, because the stakes are simply too high.

- DISCOs have billions of sunk dollars that they need to collect in a timely fashion, and resist any changes that threaten the negotiated collection schedules embedded in their current rates.
- Consumer advocates are wary of large customers shifting the burden of stranded costs onto smaller customers.
- DG developers and their customers can demonstrate that the economics of most potential DG projects cannot bear the costs of stranded production costs for grid-delivered energy that the customer does not use plus the capital and operating costs of the DG project that produces energy the customer does use.

NAESCO anticipates that the Department will face the same policy decision that both the New York Public Service Commission and the California Public Utilities Commission now face. It must quantify the value that DG projects provide to all ratepayers, in terms of system reliability and reduced costs (produced by reducing overall system demand) and weigh that against the additional stranded costs that will be paid by non-DG customers. NAESCO is confident that a rigorous analysis of the facts will justify substantially reduced stranded costs allocations to DG customers.

3. Please discuss the role of distributed generation with respect to the provision of reliable, least-cost distribution service by the Massachusetts distribution companies. What steps should the distribution companies take in order to identify areas where the installation of distribution generation would be a lower-cost alternative to system upgrades and additions? What steps should the distribution companies take to encourage the installation of cost-effective distributed generation in their service territories?.

NAESCO believes that DG systems can make a substantial contribution to distribution system reliability, can reduce distribution system costs and can reduce electric energy costs for all ratepayers by reducing the demand for electricity delivered by the grid. These values of DG have been demonstrated in multi-year regulatory proceedings in several states, including California, New York and Texas. DG is a recognized component of the draft Standard Market Design that has been promulgated by the Federal Energy Regulatory Commission. NAESCO recommends that part of the Department's charge to the collaborative proceeding established by the DTE should be the quantification of these values of DG in the context of individual Massachusetts DISCOs, the ISO New England and the pending Northeast Regional Transmission Organization (the combination of ISO New England and the New York ISO).

NAESCO also recommends that the Department mandate DG-related activities similar to those that have recently been undertaken by major utilities in Illinois and New York. These activities are highlighting grid-related problems and demonstrating the potential importance of DG in addressing those problems.

- In Illinois, the Commonwealth Edison unit of Excelon has published a system map that denotes dozens of locations where the distribution system is overloaded and where DG installations would relieve grid problems.
- In New York, the six investor-owned utilities are running pilot programs in which they each solicit proposals during the next two years for DG installations in several locations where their distribution systems require expansions or upgrades. These pilot programs will test the economic and technical viability of DG to solve grid-related problems.

In closing, NAESCO would like to express its appreciation to the Department for instituting this proceeding and inviting broad stakeholder and public participation. We urge the Department to follow through by convening a collaborative stakeholder process that addresses the issues raised in this initial request for comments.

Sincerely,

Terry E. Singer
Executive Director